BEFORE THE

PRESIDENT'S COMMISSION
ON THE UNITED STATES POSTAL SERVICE

REBUTTAL TESTIMONY OF THE AMERICAN POSTAL WORKERS UNION, AFL-CIO

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In this rebuttal testimony, we respond to several points made by Postal Service critics whose testimony might otherwise mislead the Commission. We first address the eye-catching, but false, contention that the Postal Service overpays its workers by $9 billion per year. In addressing the issue of wage comparability to the private sector, we observe that Postal Service wages and fringe benefits are no higher than those paid to full-time UPS and Federal Express workers doing comparable work. Moreover, neither UPS nor Federal Express engages in work sharing, despite the fact that they pay higher wages than the Postal Service.[1]

We also take issue in this rebuttal testimony with the contention, made by several witnesses, that the Postal Service's financial condition is dire and irreversible. This is another area in which colorful rhetoric threatens to replace analysis. Witnesses have repeatedly asserted that the Postal Service is in a "death spiral." But this contention is based on supposition, not evidence. The evidence is that proper pricing of postal services would again generate operating surpluses, as it did in the mid 1990's. Although the advent of electronic transmissions raises the question whether First-Class Mail will continue to grow, those who predict the rapid demise of First-Class Mail and of the Postal Service are doing so on the basis of conjecture, not analysis.

As Impartial Experts Have Repeatedly Found since 1984,
Postal Service Compensation Is Comparable to Private Sector Compensation.

[1] It is also misleading to compare the ratio of compensation costs to total costs for the Postal Service to the same ratios for the UPS and Federal Express. This is because UPS and FedEx, with their large fleets of trucks and airplanes, are much more capital intensive than is the U.S. Postal Service. See *The Relative Size of Labor Costs at UPS, FedEx and the U.S. Postal Service, Workplace Economics, Inc.,* January 2003, cited in the February 12, 2003, testimony of Dr. Joel Popkin to this Commission. Moreover, unlike UPS and FedEx, the Postal Service must deliver to every address every day, a very labor-intensive requirement. Given these differences, the Postal Service ratio of compensation costs to total costs is in the correct proportion. Those who cite the differences in proportion without citing the differences in capitalization and mission would mislead this Commission.

Testimony submitted to this Commission has exaggerated postal wages; asserted that postal fringe benefit costs are too high without providing any analysis; and gratuitously attacked the expert interest arbitrators who have carefully examined these matters. The subject of employee compensation makes a convenient target for rhetorical excess, but the representations to the Commission distort the facts[2].

In the 1970's, when passage of the Postal Reorganization Act was still in the recent past, Postal Service Comprehensive Statements of Postal Operations (CPSOs) regularly acknowledged that postal worker wages were comparable to wages paid for comparable work in the private sector.[3] Then, beginning in the early 1980's, the Postal

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[2] For example, one witness testified that postal clerks "average" $52,000 per year, including health and retirement benefits." (Testimony of Murray Comarow at 6.) But this number is very misleading. It is not a wage number; it is a combination of wages, overtime, shift differentials, Sunday premiums (the Postal Service processes mail 24 hours per day and 7 days per week), health insurance premiums, and retirement benefits. The "average" clerk's full-time wage in 2002 was $41,854. The most recent census figures available on median family income show that, in 2001, the median family income for a family of four was $63,278. In 2001, the average full-time wage for a postal clerk was $40,472.

[3] For example, the 1977 Annual Report stated:

"A comparison of average gross hourly earnings with those of all production or non-supervisory employees in the private sector shows that Postal Service hourly gross earnings are higher. However, there is no reason to select the average private sector job as an appropriate comparability reference for the average postal job."

The 1979 CPSO included the following table comparing postal wages to private sector wages:

TABLE 1

Comparison of Gross Earnings Per Paid Hour for Postal Service Bargaining Unit Employees with Those of Selected Private Industries
June 1978

Industry	Type of Worker	Gross Pay Per Paid Hour
Banking	Non-Supervisory	$4.14
Insurance	Non-Supervisory	5.11
Paper and Allied Products	Production	6.46
Telephone Communications	Non-Supervisory	7.31
Electric Utilities	Non-Supervisory	7.56
Postal Service	Non-Supervisory (Bargaining Unit)	8.13
Autos	Production	8.28
Metal Cans	Production	8.46
Breweries	Production	9.31
Basic Steel	Production	9.50

Source: Data for the selected private industries are from the Bureau of Labor Statistics' Employment and Earnings Series, August 1978.

Service asserted that postal wages were no longer comparable to wages paid for comparable work in the private sector. This contention led to interest arbitration decisions that established the terms of collective bargaining agreements in 1984, 1990, 1994 and 2000. Notably, the Postal Service and the APWU reached agreement on collective bargaining agreements in 1981, 1987, and 1998, 2003 they agreed to extend the 2000 National Agreement for two years, until November 2005.

In every interest arbitration since 1984, the Postal Service has submitted an economic analysis of the private sector workforce, called a regression analysis, prepared by an economist who purported to be able to compare postal workers to demographically similar workers in the private sector. This approach, which is sometimes called a "human capital" approach, ignores the effects of race and sex discrimination in private sector employment. It also discounts the important factor of employer size, comparing postal wages to wages paid by all employers in the economy, including very small employers that are in no way fairly comparable to the Postal Service. The flaws in this human capital analysis are addressed in more detail in the testimony submitted to this Commission by Dr. Joel Popkin.[4]

Because the bargaining history between the APWU and the Postal Service includes regular examination of the comparability of postal wages by expert impartial arbitrators, and includes repeated voluntary agreements between the APWU and the

[4] One example of the creative means by which the USPS's economic advocates calculate the alleged wage and benefit premium relied on by Dr. Cohen is the way they use leave benefits in their calculations. They count the money paid to employees working in place of employees who are taking leave as additional compensation to the employees on leave, thus double-counting vacation pay. This creative and unique economic advocacy serves a rhetorical purpose in arbitration, but it has no place in testimony before this Commission.

Postal Service, this Commission should view with great skepticism some witnesses' extravagant claims about excessive postal wages.[5] The most extravagant of these claims, and the most reckless, is the contention by Robert Cohen that postal workers are overpaid by $9 billion per year. This contention is based on Postal Service arguments made in interest arbitration, where the sort of exaggerated claims and rhetoric used by parties involved in collective bargaining disputes flourishes. It has not been advanced before this Commission by the Postal service itself.[6]

The most recent version of the .study relied on by Cohen also shows that the wages of white male postal workers are no higher than, and possibly even lower than, the wages of comparable white male workers in the private sector. (See the Testimony of Dr. Joel Popkin before this Commission.) But Cohen ignores that fact and ignores the fact that postal workers' wages and fringe benefits are no higher than those paid by UPS and FedEx to their full-time workers.

More to the point, this extreme human capital approach from which Dr. Cohen extrapolates his claim of excess compensation has never been accepted by any APWU/USPS interest arbitrator in the four arbitrations where it has been presented. In

[5] In the Postal Reorganization Act of 1970 (the PRA), Congress increased postal wages, which were so low that some full-time postal workers qualified for food stamps. Congress also set a statutory standard requiring that postal wages be comparable to wages of workers performing comparable levels of work in the private sector. 29 U.S.C. § 1003(a). Since they were set by Congress in the PRA, postal worker wages have increased no faster than inflation. (See the testimony submitted to this Commission by Dr. Joel Popkin on February 12, 2003.)

[6] As Dr. Cohen must know, the Postal Service has regularly submitted rate cases to his employer, the Postal Rate Commission, that have assumed that postal wages would increase at a rate approximately one percent less than wages in the private sector – an assumption that would not support Cohen's extravagant extrapolation of excess costs.

every one of those arbitrations, expert interest arbitrators, after listening at length to all the arguments, have found that postal workers were entitled to moderate wage increases.[7]

Postal critics also have directed criticism at interest arbitrators who have rejected the Postal Service's human capital approach to wage comparability.[8] These attacks are baseless. In the first place, every one of the expert interest arbitrators used by the parties, beginning with the 1984 case, has been jointly selected by agreement of the APWU and USPS. The pivotal 1984 interest arbitration award was by an internationally renowned labor economist and arbitrator, Dr. Clark Kerr.[9] Dr. Kerr found the need for "moderate restraint" of postal wages, but he did not accept the extreme human capital approach advanced by Dr. Cohen. Dr. Kerr issued a decision that wisely gave postal workers the right to share in productivity gains in the economy and which assured them that they would not suffer a loss of real income. Likewise, each of the distinguished neutral arbitrators who have served in subsequent interest arbitration cases between the APWU and the Postal Service has rejected the human capital analysis and awarded modest wage increases. Those who demean these distinguished arbitrators would mislead this Commission and do a disservice to the cause of postal reform.[10]

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[7] Between June 1984 and December 2002, the APWU bargaining unit's wages have increased 16 percentage points less than the increase in the private sector Employment Cost Index. See Chart C-1 in the comments of Dr. Joel Popkin to the Commission, February 12, 2003.

[8] E.g., Comarow, supra, at 6.

[9] Dr. Kerr had previously served as Chancellor of the University of California at Berkley.

[10] For the 1990 contract, the wage package was decided by Neutral Arbitrator Richard Mittenthal. Health benefits issues were decided by Neutral Arbitrator Rolph Valtin. In 1994, the decision was by Neutral Arbitrator Jack Clarke. Mittenthal and Valtin are past Presidents of the National Academy of Arbitrators, and Clarke is a past Vice-President. In 2000, the Neutral Arbitrator was Professor Stephen Goldberg of Northwestern University, an internationally renowned mediator and arbitrator.

Attacks on postal worker fringe benefits are also misplaced. This Commission should carefully consider the public policy implications of arguments that attack the provision of adequate health and retirement benefits.

The Federal Employees Health Benefits Program is commonly viewed as a model program. It features strong competition among health plan carriers and state-of-the-art cost-containment programs. Most recently, President Bush suggested that the FEHBP could help provide a solution to the problems of the Medicare program.

Furthermore, health benefits are, and have been, a subject of collective bargaining negotiations under present law. The employer contribution to health insurance premiums is set in the collective bargaining agreement, and it has repeatedly been subjected to scrutiny in the interest arbitration process. During the 1990 collective bargaining negotiations, the Joint Bargaining Committee comprised of the APWU and the National Association of Letter Carriers raised the possibility of taking their members out of the FEHBP, but the Postal Service declined.

Given the efficiency of the FEHB Program, attacks on postal worker health benefits amount to an argument that mailers should not have to bear the cost of having mail processed by workers with adequate health insurance.[11] Similarly, attacks on the cost of postal worker retirement benefits are basically an argument that mailers should not have to bear the cost of having the mail processed by workers with an adequate retirement program. A substantial majority of postal workers are now enrolled in the Federal Employees Retirement System (FERS), not the Civil Service Retirement System.

[11] Data published on the internet by EBRI show that 80 percent of people without health insurance in this country are from working families. Nineteen million full-time workers are without health insurance. (http://coveringtheuninsured.org/factsheets/display).

Under FERS, benefits are moderate, fully-funded, and coordinated with social security benefits. Efforts to save postage by eliminating eligibility for FERS would be unjustified.

THE 'DEATH SPIRAL' IS A FALSE CLAIM:

> **"A classic regulatory death spiral is an increasing threat."–** *Envelope Manufacturers Association Foundation for Postal Studies, page 7.*
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> **"Postage is, for most mailers, a fixed expense. So, with every postage increase, mail volume decline even further, creating the need for yet another rate increase and the cycle begins again – a trend often called the Postal Service's death spiral."–** *Mailers Council, page 5*

Revenues Increase After Prices Increase

In various forms, the "death spiral" assertion is that price increases cause volume declines so large that revenues also decline. While, is widely disseminated and perhaps accepted, this assertion is demonstrably false. After the last price increase, the decline in volume slowed down in the last fiscal quarter of 2002, followed by an increase in the first fiscal quarter of 2003. To the point, revenue increased after the price increase; it did not decline. Historically, volume usually increases after a price increase. Revenue has always increased.

Revenues have increased in each of the past four years, a trend that airlines, hotels and local restaurants can only envy:

Year	2002	2001	2000	1999
Revenue	$66.5 billion	$65.9 billion	$64.6 billion	$62.7 billion

The only real threats to the long-term financial health of the Postal Service are deteriorating service and excessive discounts.

Where the USPS Can Make Up for Short-Term Losses in First Class Volume

The Postal Service has significant fixed costs, which including the time that carriers spend driving their routes. These costs must be covered by contribution from mail. First-Class and Standard A mail account for the vast majority of the volume and the contribution. In 2001, there were only two categories of mail with significant contributions: First Class at $18.13 billion and Standard A at $5.75 billion. In the first quarter of fiscal 2003, First Class mail declined 2.7 percent, costing the Postal Service about $500 million in contribution. However, Standard A increased 7 percent, adding about $400 million in contribution. The increase in contribution from Standard A nearly offset the First Class decline.

Excessive Discounts Hurt Postal Financial Results

The Postal Service has, through increasingly generous discounts, significantly hurt its financial performance.[12] Since January 1995, single-piece First-Class postage has increased 15.6 percent. However, increasing automation discounts resulted in price increases of only 7.7 percent for large mailers. Compared to the inflation rate since then of 18 percent, the Postal Service has provided large mailers and pre-sort houses with significant real savings. By giving discounts far above the costs it avoids, the Postal service loses contribution on each piece of mail that shifts from single piece to automation. Ironically, these pieces that shift from non pre-sort First Class to pre-sort or automation First Class use the same delivery network and have the same level of service

[12] See the Testimony on worksharing submitted to this Commission by economist Kathryn Kobe.

and security. The costs of these portions of the Postal Service do not change on a per piece basis when the mailer shifts. Yet they pay a smaller per piece contribution if their rate drops by more than the Postal Service saves.

Discounts Offset Price Increases

The effects of the shift to discounted mail have been dramatic. One measure of the total effect of discounts can be seen in the average revenue per piece of mail delivered. In 1995 it stood at 29.04 cents per piece. In 2002 it had risen only to 31.43 cents per piece. Despite price increases of 3 percent in 1999, 6 percent in 2000 and 9 percent in 2002, the average revenue per piece had risen only 8.2 percent. From 1998 to 2002, the number of single-piece First Class letters fell by 5 billion pieces or almost 10 percent. At the same time, Automation Pre-sort letters (deeply discounted) increased by over 8.5 billion pieces, or almost 25 percent.

It seems highly likely that this increase came primarily as a shift from single-piece to the discounted rate. Said differently, price increases have not yielded the needed revenue increases because of the increases in discounts. Inflation of 18 percent and nominal price increases of 18 percent actually yielded an 8 percent per piece increase in revenue.

Bottom-Up Pricing Would Not Solve Any Postal Problems

There seems to be a fascination with what has been referred to as “bottoms-up pricing” (DMA, page 6), or “de-averaged pricing” (AOL Time Warner, page 14) or “menu pricing” (MPA, page 12). The proponents of this approach seem to believe that by changing the order of pricing – from the bottom up as opposed to from the top down – the Postal Service will be able to give these mailers lower postal rates. Under this new pricing scheme, the Postal Service would either reduce the amount of fixed costs it presently incurs or would reduce the amount of fixed costs it now assigns to them.

These proposals indicate that fixed costs should not be a burden on all mailers, but rather that each mailer should be allowed to pick and choose which fixed costs appropriately belong to them. These same parties all favor the Postal Service retaining the delivery functions ("last mile") while contracting out or work-sharing a major portion of the mail processing and transportation functions. When we examined the composition of the Postal Service's fixed costs- those costs not attributable to any specific class of mail- , it becomes quite clear that almost 40 percent of these costs are directly from the delivery function, which will continue. The remaining portion of the Postal Service's fixed costs are largely general overhead costs tied to the acceptance, accounting, security, supervision, and administrative functions, including postmasters and other layers of management, which still will be required to properly deliver the big mailers' products.

Mailers Look to Shift Costs to Others

These parties perhaps assume that if they can shed some fixed-cost burdens, such costs will simply leave the Postal Service. The only other possibility is that another mailer group would be more than happy to add the fixed-cost burden to their rates. This logic of denouncing the current rate-setting mechanism in the hopes that a new rate setting scheme will provide the proponent with lower rates makes sense only if someone else is getting a free ride at their expense. The mailers point to no such beneficiary and thus we must conclude that on balance they can only gain at someone else's expense. This other group has yet to be identified and we are left with these proponents saying… "It's not fair – because – I can't get what I want."

FedEx and UPS Don't Offer Bottoms-Up Pricing

It is also interesting to observe that this novel concept of mailers or shippers picking and choosing the pieces of the work to be performed by such efficient private sector operators as FedEx, UPS, Airborne and similar carriers is clearly absent in the published rate schedules of those carriers.

Bottom-Up Threatens the Financial Viability of the Postal Service

What many mailers seem to want is an environment in which the Postal Service, unlike the rest of businesses in service industries, would be able to operate without ever raising prices again and, at the same time, grant great discounts to large mailers. To claim that such a thing is possible is the height of arrogance and naive thinking. Their version of bottoms-up pricing is a prescription for financial failure and a guarantee of the professed financial death spiral.

Service Is Most Important

In service industries, people make choices based on the service that they receive. The biggest threat to the Postal Service lies in providing poor service. Traditionally, when the Postal Service cuts costs, service suffers. As long as people trust the Postal Service to deliver their mail safely, securely, in a reasonable time, and in a convenient manner, they will continue to use the Postal Service. Increasing problems with electronic identity theft and Internet scams point out the value of the Postal Service safeguards such as secure mail boxes, assured delivery, and mail pieces sealed against inspection. The backing of these guarantees by the USPS Inspection Service protects consumers and the mail they send and receive. In some other countries, few people trust the mail to be a secure deliverer of valuable material.[13]

There are scattered reports of service problems increasing in areas where the Postal Service has cut costs to survive its poor decisions about the timing of price increases. For example, some new communities have been denied Post Offices due to the freeze that occurred in capital spending. This Commission needs to recognize that good service is the most important factor in the long-run survival of the Postal Service.

[13] The U.S. Postal Service started a program to replace Postal Money Orders with wire transfer to Mexico because of the wide-ranging theft that occurred in that country's mail. The Postal Service has been unsuccessful growing package volume to many countries because of theft of those packages overseas.